



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE February 22, 2005

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Auditor of State David A. Vaudt today released an audit report on the Hiawatha Waterworks, Hiawatha, Iowa.

The Waterworks' receipts totaled \$991,006 for the year ended June 30, 2004, a less than one percent increase from 2003. The receipts included \$536,156 in charges for service, \$368,453 in sewer and storm water fees collected for the City and \$10,631 in interest on investments.

Disbursements for the year totaled \$959,235, a five percent decrease from the prior year, and included \$588,383 for operations and improvements and \$370,852 for sewer and storm water fees remitted to the City of Hiawatha.

A copy of the audit report is available for review in the Office of Auditor of State and the Waterworks' office.

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HIAWATHA WATERWORKS
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

Table of Contents

| | <u>Page</u> |
|--|-----------------|
| Officials | 3 |
| Independent Auditor's Report | 5-6 |
| Management's Discussion and Analysis | 7-9 |
| Financial Statement: | <u>Exhibit</u> |
| Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets | A 13 |
| Notes to Financial Statement | 14-16 |
| Required Supplementary Information: | |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) | 18-19 |
| Notes to Required Supplementary Information – Budgetary Reporting | 20 |
| Other Supplementary Information: | <u>Schedule</u> |
| Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets – Enterprise Funds | 1 22-25 |
| Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting | 27-28 |
| Schedule of Findings | 29-30 |
| Staff | 31 |

Hiawatha Waterworks

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|-------------------------|---------------------|
| (Before January 2004) | | |
| James Lavenz | Chairman | Jan 2004 |
| Sandy Brewer | Trustee | Jan 2005 |
| Darryl Bradley | Trustee | Jan 2006 |
| Richard Larson | Trustee | Jan 2007 |
| Charlie Fridal | Trustee | Jan 2009 |
| Carl Ransford | Superintendent | Indefinite |
| Debra Larson | Billing Clerk | Indefinite |
| Sara Ries | Assistant Billing Clerk | Indefinite |
| (After January 2004) | | |
| James Lavenz | Chairman | Jan 2010 |
| Sandy Brewer | Trustee | Jan 2005 |
| Darryl Bradley | Trustee | (Resigned) |
| Bob Rampulla (Appointed) | Trustee | Jan 2006 |
| Richard Larson | Trustee | Jan 2007 |
| Charlie Fridal | Trustee | Jan 2009 |
| Carl Ransford | Superintendent | Indefinite |
| Debra Larson | Billing Clerk | Indefinite |
| Sara Ries | Assistant Billing Clerk | Indefinite |

Hiawatha Waterworks



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Independent Auditor's Report

To the Board of Trustees of the
Hiawatha Waterworks:

We have audited the accompanying financial statement of the Hiawatha Waterworks, Hiawatha, Iowa, as of and for the year ended June 30, 2004. This financial statement is the responsibility of Waterworks' officials. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Hiawatha Waterworks is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Hiawatha that is attributable to the transactions of the Waterworks.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Hiawatha Waterworks as of June 30, 2004, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 7, during the year ended June 30, 2004, the Hiawatha Waterworks adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2004 on our consideration of the Hiawatha Waterworks' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 9 and pages 18 through 20 are not required parts of the financial statement, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statement taken as a whole. The supplemental information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statement and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statement taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 27, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Hiawatha Waterworks provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Waterworks' financial statement, which follows.

2004 FINANCIAL HIGHLIGHTS

- The Waterworks' total receipts increased less than one per cent, or approximately \$3,100, from fiscal 2003 to fiscal 2004.
- The Waterworks' total disbursements decreased approximately \$43,600, or 4%, from fiscal 2003 to fiscal 2004.
- The Waterworks' total cash basis net assets decreased 9%, or approximately \$51,000, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The Hiawatha Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the Hiawatha Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Hiawatha Waterworks' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Hiawatha Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Hiawatha Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Required Supplementary Information further explains and supports the financial statement with a comparison of the Waterworks' budget for the year.

Other Supplementary Information provides detailed information about the individual Enterprise Funds.

FINANCIAL ANALYSIS OF THE HIAWATHA WATERWORKS

Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets

The purpose of the statement is to present the receipts received by the Hiawatha Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statement are able to determine the Hiawatha Waterworks' financial position by analyzing the increase and decrease in cash basis net assets.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, taps and miscellaneous fees. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2004 and June 30, 2003 are presented below:

| | Changes in Cash Basis Net Assets | |
|---|----------------------------------|-----------|
| | Year ended June 30 | |
| | 2004 | 2003 |
| Receipts: | | |
| Interest on investments | \$ 10,631 | 30,424 |
| Charges for service | 536,156 | 528,271 |
| Sewer and storm water fees collected for the City | 368,453 | 364,425 |
| Miscellaneous | 75,766 | 64,741 |
| Total receipts | 991,006 | 987,861 |
| Disbursements and Transfers: | | |
| Plant operation and maintenance | 83,968 | 84,349 |
| Distribution operation and maintenance | 92,030 | 86,570 |
| Administration | 244,072 | 234,629 |
| Capital outlay | 168,313 | 234,026 |
| Sewer and storm water fees remitted to the City | 370,852 | 366,821 |
| Transfers to the City of Hiawatha | 82,993 | 79,486 |
| Total disbursements and transfers | 1,042,228 | 1,085,881 |
| Net change in cash basis net assets | (51,222) | (98,020) |
| Cash basis net assets beginning of year | 540,125 | 638,145 |
| Cash basis net assets end of year | \$ 488,903 | 540,125 |

The Waterworks' net assets are unrestricted assets available for use in the routine operations for the plant, distribution and administrative areas of the Waterworks and for capital improvements to the plant and distribution areas. State and federal laws and regulations require the Hiawatha Waterworks to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution.

DEBT ADMINISTRATION

At June 30, 2004, the Hiawatha Waterworks did not have any debt outstanding. However, each year the Waterworks transfers to the City of Hiawatha an amount approximating 37% of the principal and interest coming due on the City's general obligation bonds issued June 1, 2000. This amount represents the Waterworks' pro rata share of bond proceeds used to finance improvements and extensions to the utility.

ECONOMIC FACTORS

The Hiawatha Waterworks has raised the water rate charges as of July 2004 to improve its financial position for the next fiscal year and to pay for a water storage unit used at wells 6 and 8 on Boyson Road. Current economic conditions beyond the Hiawatha Waterworks' Trustees control play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- the need to constantly maintain facilities, wells, vehicles and machinery.
- the need to comply with federal and state regulations for the production of water and well-head protection.
- the need to maintain up-to-date technology at a reasonable cost.
- the fluctuation of the cost of the chemicals and energy used to produce quality water.

CONTACTING THE WATERWORKS' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Hiawatha Waterworks' finances and to show the Waterworks' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hiawatha Waterworks, 81 Emmons Street, PO Box 485, Hiawatha, Iowa 52233.

Hiawatha Waterworks

Financial Statement

Hiawatha Waterworks

Hiawatha Waterworks
Statement of Cash Receipts, Disbursements and
Changes in Cash Basis Net Assets
As of and for the year ended June 30, 2004

| | |
|---|-------------------|
| Operating receipts: | |
| Charges for service | \$ 536,156 |
| Miscellaneous | 75,766 |
| Total operating receipts | <u>611,922</u> |
| Operating disbursements: | |
| Business type activities: | |
| Plant operation and maintenance | 83,968 |
| Distribution operation and maintenance | 92,030 |
| Administration | 244,072 |
| Capital outlay | 168,313 |
| Total operating disbursements | <u>588,383</u> |
| Excess of operating receipts over operating disbursements | <u>23,539</u> |
| Non-operating receipts (disbursements): | |
| Interest on investments | 10,631 |
| Sewer and storm water fees collected for City | 368,453 |
| Sewer and storm water fees remitted to City | (370,852) |
| Total non-operating receipts (disbursements) | <u>8,232</u> |
| Excess of receipts over disbursements | 31,771 |
| Transfers to the City of Hiawatha | <u>(82,993)</u> |
| Change in cash basis net assets | (51,222) |
| Cash basis net assets beginning of year | <u>540,125</u> |
| Cash basis net assets end of year | <u>\$ 488,903</u> |
| Cash Basis Net Assets | |
| Restricted for: | |
| Sewer and storm water fees | \$ 10,721 |
| Customer water deposits | 53,884 |
| Capital improvements | 174,404 |
| Total restricted net assets | <u>239,009</u> |
| Unrestricted | <u>249,894</u> |
| Total cash basis net assets | <u>\$ 488,903</u> |

See notes to financial statement.

Hiawatha Waterworks
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Hiawatha Waterworks is a component unit of the City of Hiawatha, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a five-member board of trustees appointed by the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its receipts, disbursements and balances. The funds are classified as Enterprise Funds in the financial statement. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

C. Basis of Accounting

The Hiawatha Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Assets and Net Assets

The following accounting policy is followed in preparing the Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets.

Restricted Assets and Net Assets – Funds set aside for sewer and storm water fees, customer water deposits and capital improvements are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The Waterworks' deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Pension and Retirement Benefits

The Waterworks contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Waterworks is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The Waterworks' contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$14,984, \$14,246 and \$15,494, respectively, equal to the required contributions for each year.

(4) Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. Sick leave is payable when used or upon voluntary termination or retirement for accumulations in excess of 720 hours.

These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the Enterprise Fund, Water Operating Account, is as follows:

| Type of Benefit | Amount |
|-----------------|-----------------|
| Vacation | \$ 4,500 |
| Sick leave | <u>5,000</u> |
| Total | <u>\$ 9,500</u> |

This liability has been computed based on rates of pay in effect at June 30, 2004.

(5) Risk Management

The Hiawatha Waterworks is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

| Transfer to | Transfer from | Amount |
|--|-----------------|-------------------|
| Capital Improvements | Water Operating | \$ 160,167 |
| Transfers to the City of Hiawatha: Debt Service | Water Operating | 67,805 |
| Internal Service: Equipment Reserve | Water Operating | <u>15,188</u> |
| Total | | <u>\$ 243,160</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Accounting Change

For the year ended June 30, 2004, the Waterworks implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements- and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

Implementation of these standards had no effect on the beginning balance of the Waterworks.

Required Supplementary Information

Hiawatha Waterworks

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis)

Year ended June 30, 2004

| | <u>Actual</u> | <u>Less Funds not Required to be Budgeted</u> |
|---|-------------------|---|
| Receipts: | | |
| Use of money and property | \$ 10,631 | - |
| Charges for service | 904,609 | 368,453 |
| Miscellaneous | 75,766 | 11,234 |
| Total receipts | <u>991,006</u> | <u>379,687</u> |
| Disbursements: | | |
| Business type activities | <u>959,235</u> | <u>370,852</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements | 31,771 | 8,835 |
| Other financing uses, net | <u>(82,993)</u> | - |
| Change in cash basis net assets | (51,222) | 8,835 |
| Cash basis net assets beginning of year | <u>540,125</u> | <u>1,886</u> |
| Cash basis net assets end of year | <u>\$ 488,903</u> | <u>10,721</u> |

See accompanying independent auditor's report.

| Net | Budgeted Amounts | | Final to Net Variance |
|----------|------------------|-----------|-----------------------------|
| | Original | Final | |
| 10,631 | 10,500 | 10,500 | 131 |
| 536,156 | 540,200 | 540,200 | (4,044) |
| 64,532 | 52,660 | 52,660 | 11,872 |
| 611,319 | 603,360 | 603,360 | 7,959 |
| 588,383 | 1,099,649 | 1,099,649 | 511,266 |
| 22,936 | (496,289) | (496,289) | 519,225 |
| (82,993) | - | - | (82,993) |
| (60,057) | (496,289) | (496,289) | 436,232 |
| 538,239 | 540,125 | 540,125 | (1,886) |
| 478,182 | 43,836 | 43,836 | 434,346 |

Hiawatha Waterworks

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

The Hiawatha Waterworks prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except sewer and storm water fees collected for and remitted to the City. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function.

During the year ended June 30, 2004, disbursements did not exceed the amount budgeted.

Other Supplementary Information

Hiawatha Waterworks

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets

Enterprise Funds

As of and for the year ended June 30, 2004

| | Water Operating | Meter Deposit |
|---|--------------------|------------------|
| Operating receipts: | | |
| Charges for service: | | |
| Sale of water | \$ 529,670 | - |
| Tower contract | 6,486 | - |
| | <u>536,156</u> | <u>-</u> |
| Miscellaneous: | | |
| Sales tax collected | 23,062 | - |
| Refunds and reimbursements | 1,351 | - |
| Customer deposits | - | 23,165 |
| Penalties | 6,751 | - |
| Miscellaneous | 10,203 | - |
| | <u>41,367</u> | <u>23,165</u> |
| Total operating receipts | <u>577,523</u> | <u>23,165</u> |
| Operating disbursements: | | |
| Business type activities: | | |
| Plant operation and maintenance: | | |
| Personal services | 74,556 | - |
| Contractual services | 9,412 | - |
| | <u>83,968</u> | <u>-</u> |
| Distribution operation and maintenance: | | |
| Contractual services | 64,609 | - |
| Commodities | 27,421 | - |
| | <u>92,030</u> | <u>-</u> |
| Administration: | | |
| Personal services | 159,974 | - |
| Contractual services | 59,134 | 5,076 |
| Commodities | 19,888 | - |
| | <u>238,996</u> | <u>5,076</u> |
| Capital outlay: | | |
| Water main and line improvements | 94,282 | - |
| | <u>94,282</u> | <u>-</u> |
| Total operating disbursements | <u>509,276</u> | <u>5,076</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | <u>68,247</u> | <u>18,089</u> |

| City Waterworks | Capital Improvements | Total |
|--------------------|-------------------------|---------|
| - | - | 529,670 |
| - | - | 6,486 |
| - | - | 536,156 |
| 6,019 | - | 29,081 |
| - | - | 1,351 |
| - | - | 23,165 |
| 5,215 | - | 11,966 |
| - | - | 10,203 |
| 11,234 | - | 75,766 |
| 11,234 | - | 611,922 |
| - | - | 74,556 |
| - | - | 9,412 |
| - | - | 83,968 |
| - | - | 64,609 |
| - | - | 27,421 |
| - | - | 92,030 |
| - | - | 159,974 |
| - | - | 64,210 |
| - | - | 19,888 |
| - | - | 244,072 |
| - | 74,031 | 168,313 |
| - | 74,031 | 588,383 |
| 11,234 | (74,031) | 23,539 |

Hiawatha Waterworks

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets

Enterprise Funds

As of and for the year ended June 30, 2004

| | Water Operating | Meter Deposit |
|---|--------------------|------------------|
| Non-operating receipts (disbursements): | | |
| Interest on investments | 6,225 | - |
| Sewer and storm water fees collected for the City | - | - |
| Sewer and storm water fees remitted to the City | - | - |
| Total non-operating receipts (disbursements) | 6,225 | - |
| Excess (deficiency) of receipts over (under) disbursements | 74,472 | 18,089 |
| Transfers in (out): | | |
| Enterprise: | | |
| Water Operating | - | - |
| Capital Improvements | (160,167) | - |
| To City of Hiawatha: | | |
| Internal Service: | | |
| Equipment Reserve | (15,188) | - |
| Debt Service | (67,805) | - |
| Total transfers in (out) | (243,160) | - |
| Net change in cash basis net assets | (168,688) | 18,089 |
| Cash basis net assets beginning of year | 418,582 | 35,795 |
| Cash basis net assets end of year | \$ 249,894 | 53,884 |
| Cash Basis Fund Balances: | | |
| Reserved for: | | |
| Sewer and storm water fees | \$ - | - |
| Customer water deposits | - | 53,884 |
| Capital improvements | - | - |
| Unreserved | 249,894 | - |
| Total cash basis fund balances | \$ 249,894 | 53,884 |

See accompanying independent auditor's report.

| City Waterworks | Capital Improvements | Total |
|--------------------|-------------------------|-----------|
| - | 4,406 | 10,631 |
| 368,453 | - | 368,453 |
| (370,852) | - | (370,852) |
| (2,399) | 4,406 | 8,232 |
| 8,835 | (69,625) | 31,771 |
| - | 160,167 | 160,167 |
| - | - | (160,167) |
| - | - | (15,188) |
| - | - | (67,805) |
| - | 160,167 | (82,993) |
| 8,835 | 90,542 | (51,222) |
| 1,886 | 83,862 | 540,125 |
| 10,721 | 174,404 | 488,903 |
| 10,721 | - | 10,721 |
| - | - | 53,884 |
| - | 174,404 | 174,404 |
| - | - | 249,894 |
| 10,721 | 174,404 | 488,903 |

Hiawatha Waterworks



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Trustees of the
Hiawatha Waterworks:

We have audited the financial statement of the Hiawatha Waterworks, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 27, 2004. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hiawatha Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hiawatha Waterworks' internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Waterworks' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their

assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is considered to be a material weakness. The prior year reportable condition has not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Hiawatha Waterworks and other parties to whom the Hiawatha Waterworks may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Hiawatha Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 27, 2004

Hiawatha Waterworks

Schedule of Findings

Year ended June 30, 2004

Findings Related to the Financial Statement:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One individual has control over one or more of the following areas:

- (1) Accounting/computer system – performance of all accounting and data input functions for cash, investments, receipts, utility collections, disbursements and financial reporting.
- (2) Cash – preparing bank account reconciliations, cash receipt and disbursement functions, handling and recording cash.
- (3) Receipts – billings, collecting, depositing, recording and reconciling.
- (4) Disbursements – check writing, signing, posting and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Waterworks should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel and utility officials.

Response – We will continue to evaluate the internal controls and segregation duties with limited staff. The board and superintendent will continue to monitor and oversee to help with segregation of the duties.

Conclusion – Response accepted.

Hiawatha Waterworks

Schedule of Findings

Year ended June 30, 2004

Other Findings Related to Required Statutory Reporting:

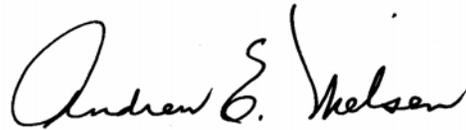
- (1) Official Depositories – A resolution naming official depositories has been approved by the Waterworks Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Certified Budget – The budget certified by the City of Hiawatha includes amounts for the Hiawatha Municipal Waterworks. Disbursements during the year ended June 30, 2004 did not exceed the amount budgeted.
- (3) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of Waterworks' money for travel expenses of spouses of Waterworks' officials or employees were noted.
- (5) Business Transactions – No business transactions between the Waterworks and Waterworks' officials or employees were noted.
- (6) Bond Coverage – Surety bond coverage of Waterworks' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (7) Board Minutes – No transactions were found that we believe should have been approved in the minutes but were not.
- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Waterworks' investment policy were noted.

Hiawatha Waterworks

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager
Kelly V. Rea, CPA, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State